

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
LAWRENCE COUNTY FISCAL COURT

June 30, 2006

The Auditor of Public Accounts has completed the audit of the Lawrence County Fiscal Court for fiscal year ended June 30, 2006.

We have issued unqualified opinions, based on our audit on the governmental activities, each major fund, and aggregate remaining fund information of Lawrence County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$17,974,384 as of June 30, 2006. The fiscal court had unrestricted net assets of \$662,352 in its governmental funds as of June 30, 2006. The fiscal court had total debt principal as of June 30, 2006 of \$2,038,625 with \$327,977 due within the next year.

Report Comments:

- Grant Proceeds Totaling \$7,338 Were Diverted By The Former Emergency Management Director And Not Received By The County
- The County Should Assure That Insurance Coverage Is Adequate

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Phillip L. Carter, Former Lawrence County Judge/Executive
Honorable David Compton, Lawrence County Judge/Executive
Members of the Lawrence County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lawrence County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lawrence County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lawrence County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lawrence County, Kentucky, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.



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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lawrence County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2007 on our consideration of Lawrence County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present comments and recommendations, included herein, which discuss the following report comments:

- Grant Proceeds Totaling \$7,338 Were Diverted By The Former Emergency Management Director And Not Received By The County
- The County Should Assure That Insurance Coverage Is Adequate

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 19, 2007

LAWRENCE COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Phillip L. Carter	Former County Judge/Executive
William Lemaster	Magistrate
Harold Slone	Magistrate
Mike Diamond	Magistrate
Gary Nelson	Magistrate

Other Elected Officials:

Michael T. Hogan	County Attorney
Phillip Triplett	Jailer
Chris Jobe	County Clerk
Martha Kiser	Circuit Court Clerk
Garrett Roberts	Sheriff
Chris Rose	Property Valuation Administrator
Michael Wilson	Coroner

Appointed Personnel:

Sabrina Cantrell	County Treasurer
Michelle Miller	Finance Officer
Eddie Michael	Deputy Judge/Executive

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LAWRENCE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

LAWRENCE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 487,352
Assets Held For Resale	175,000
Total Current Assets	<u>662,352</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	2,128,000
Furniture And Office Equipment	93,150
Buildings	3,792,958
Vehicles and Equipment	562,827
Infrastructure Assets - Net of Depreciation	<u>12,773,722</u>
Total Noncurrent Assets	<u>19,350,657</u>
Total Assets	<u>20,013,009</u>
LIABILITIES	
Current Liabilities:	
General Obligation Bonds Payable	60,000
Financing Obligations Payable	267,977
Total Current Liabilities	<u>327,977</u>
Noncurrent Liabilities:	
General Obligation Bonds Payable	60,000
Financing Obligations Payable	1,650,648
Total Noncurrent Liabilities	<u>1,710,648</u>
Total Liabilities	<u>2,038,625</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	17,312,032
Unrestricted	662,352
Total Net Assets	<u>\$ 17,974,384</u>

The accompanying notes are an integral part of the financial statements.

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LAWRENCE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LAWRENCE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Program Revenues Received					Net (Expenses) Revenues and Changes in Net Assets	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Primary Government:						
Governmental Activities:						
General Government	\$ 1,620,794	\$ 214,808	\$ 469,406	\$	\$	(936,580)
Protection to Persons and Property	749,606	7,316	262,192			(480,098)
General Health and Sanitation	148,815	48,062	32,553	82,045		13,845
Social Services	45,231					(45,231)
Recreation and Culture	234,794		\$ 37,500	359,712		162,418
Roads	1,614,438		2,061,196	466,601		913,359
Road Facilities	1,201,528					(1,201,528)
Interest on Long-term Debt	73,673					(73,673)
Capital Projects	95,401					(95,401)
Total Governmental Activities	5,784,280	270,186	2,862,847	908,358		(1,742,889)
General Revenues:						
Taxes:						
						595,055
						5,600
						126,555
						625,188
						9,948
						248,540
						5,614
						1,616,500
						(126,389)
						18,100,773
					\$	17,974,384

The accompanying notes are an integral part of the financial statements.

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LAWRENCE COUNTY
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
June 30, 2006

LAWRENCE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Local Government Economic Development Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 243,938	\$ 61,151	\$ 115,020	\$ 67,243	\$ 487,352
Total Assets	<u>243,938</u>	<u>61,151</u>	<u>115,020</u>	<u>67,243</u>	<u>487,352</u>
FUND BALANCES					
Reserved for:					
Encumbrances	54,508	20,702	3,273	4,131	82,614
Unreserved:					
General Fund	189,430				189,430
Special Revenue Funds		40,449	111,747	63,112	215,308
Total Fund Balances	<u>\$ 243,938</u>	<u>\$ 61,151</u>	<u>\$ 115,020</u>	<u>\$ 67,243</u>	<u>\$ 487,352</u>

**Reconciliation of the Balance Sheet - Governmental
Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 487,352
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	26,712,316
Accumulated Depreciation	(7,361,659)
Assets Held for Resale Are Not Financial Resources and Therefore Are Not Reported in the Funds.	175,000
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(1,918,625)
Bonded Debt	(120,000)
Net Assets Of Governmental Activities	<u>17,974,384</u>

The accompanying notes are an integral part of the financial statements.

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LAWRENCE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LAWRENCE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Local Government Economic Development Fund	Non- Major Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 963,587	\$	\$	\$ 164,700	\$ 1,128,287
In Lieu Tax Payments	207,636				207,636
Excess Fees	9,948				9,948
Licenses and Permits	16,648				16,648
Intergovernmental	833,607	1,851,473	1,001,328	149,386	3,835,794
Charges for Services				47,713	47,713
Miscellaneous	389,543	16,604		100	406,247
Interest	1,073	1,884	1,809	852	5,618
Total Revenues	<u>2,422,042</u>	<u>1,869,961</u>	<u>1,003,137</u>	<u>362,751</u>	<u>5,657,891</u>
EXPENDITURES					
General Government	886,323		59,252		945,575
Protection to Persons and Property	102,029			626,940	728,969
General Health and Sanitation	146,504				146,504
Social Services	43,231		2,000		45,231
Recreation and Culture	220,750				220,750
Roads	194,685	6,936	613,185		814,806
Road Facilities		1,376,528			1,376,528
Debt Service	628,229	131,035		114,094	873,358
Capital Projects	56,005			39,396	95,401
Administration	458,220	225,315		34,924	718,459
Total Expenditures	<u>2,735,976</u>	<u>1,739,814</u>	<u>674,437</u>	<u>815,354</u>	<u>5,965,581</u>
Excess (Deficiency) of Revenues					
Expenditures Before Other					
Financing Sources (Uses)	<u>(313,934)</u>	<u>130,147</u>	<u>328,700</u>	<u>(452,603)</u>	<u>(307,690)</u>
Other Financing Sources (Uses)					
Transfers From Other Funds	404,500	(140,000)	49,500	410,662	724,662
Transfers To Other Funds	<u>(362,512)</u>	<u></u>	<u>(362,150)</u>	<u></u>	<u>(724,662)</u>
Total Other Financing Sources (Uses)	<u>41,988</u>	<u>(140,000)</u>	<u>(312,650)</u>	<u>410,662</u>	<u></u>
Net Change in Fund Balances	(271,946)	(9,853)	16,050	(41,941)	(307,690)
Fund Balances - Beginning	515,884	71,004	98,970	109,184	795,042
Fund Balances - Ending	<u>\$ 243,938</u>	<u>\$ 61,151</u>	<u>\$ 115,020</u>	<u>\$ 67,243</u>	<u>\$ 487,352</u>

The accompanying notes are an integral part of the financial statements.

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**LAWRENCE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

**LAWRENCE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (307,690)
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Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	256,000
Depreciation Expense	(905,222)
Disposal Of Capital Asset	(144,162)
Assets Held For Resale	175,000

Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.

Financing Obligations Principal Amount	749,685
Bond Payments	<u>50,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (126,389)</u></u>
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LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lawrence County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Lawrence County Public Properties Corporation

The fiscal court appoints the voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Lawrence County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Lawrence County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Lawrence County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for funds that must be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, and industrial and economic development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Jail Fund, Community Development Block Grant Fund, Forestry Fund, Sewer Fund, E-911 Fund, and Public Properties Corporation Bond Fund.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance Fund, Jail Fund, Community Development Block Grant Fund, Forestry Fund, Sewer Fund, E-911 Fund, and Public Properties Corporation Bond Fund are presented as special revenue funds. Specific revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvement	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	10-50

H. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

I. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Bond Fund and the Economic Development Authority (the discretely presented component unit). The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

K. Jointly Governed Organization

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is disclosed as an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,128,000		\$	\$ 2,128,000
Construction In Progress				
Total Capital Assets Not Being Depreciated	2,128,000			2,128,000
Capital Assets, Being Depreciated:				
Buildings	4,904,701	48,000		4,952,701
Furniture and Office Equipment	15,000	100,000		115,000
Vehicles and Equipment	1,621,291	10,000	(156,636)	1,474,655
Infrastructure	17,943,960	98,000		18,041,960
Total Capital Assets Being Depreciated	24,484,952	256,000	(156,636)	24,584,316
Less Accumulated Depreciation For:				
Buildings	(1,048,456)	(111,287)		(1,159,743)
Furniture and Office Equipment	(8,229)	(13,621)		(21,850)
Vehicles and Equipment	(847,643)	(76,659)	12,474	(911,828)
Infrastructure	(4,564,583)	(703,655)		(5,268,238)
Total Accumulated Depreciation	(6,468,911)	(905,222)	12,474	(7,361,659)
Total Capital Assets, Being Depreciated, Net	18,016,041	(649,222)	(144,162)	17,222,657
Governmental Activities Capital Assets, Net	\$ 20,144,041	\$ (649,222)	\$ (144,162)	\$ 19,350,657

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 104,760
Protection to Persons and Property	20,637
General Health and Sanitation	2,311
Recreation and Culture	14,044
Roads, Including Depreciation of General Infrastructure Assets	<u>763,470</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 905,222</u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Short-term Debt

On April 29, 2005, the county entered into an agreement to borrow \$490,000 at a rate of 3.25% from the Kentucky Area Development District to pay remaining bills for the community center. The agreement is identified as a financing obligation, however the agreement had a maturity date of one year, so it was considered short-term debt. On November 22, 2005, the county repaid the full balance plus accrued interest.

Changes In Short-term Liabilities were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligation	\$ 490,000	\$ 0	\$ 490,000	\$ 0	\$ 0

Note 5. Long-term Debt

A. Road Improvements

On November 12, 2003, the Lawrence County Fiscal Court entered into a financing agreement with the Kentucky Area Development District leasing trust program for road improvements. The principal amount of the agreement was \$555,000. The agreement requires two annual payments on November 20 and May 20 of each year for five years, starting November 20, 2003 to be paid in full November 20, 2007. The principal balance of the agreement was \$185,000 as of June 30, 2006. Payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 125,000	\$ 4,559
2008	60,000	900
Totals	\$ 185,000	\$ 5,459

B. Road Equipment – Trucks

On August 7, 2003, the Lawrence County Fiscal Court entered into a financing agreement with the Kentucky Area Development District leasing trust program for road equipment. The principal amount of the agreement was \$155,000. The agreement requires two annual payments on October 20 and April 20 of each year for five years, starting October 20, 2003 to be paid in full April 20, 2008. The principal balance of the agreement was \$65,000 as of June 30, 2006. Payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 30,000	\$ 2,203
2008	35,000	1,347
Totals	\$ 65,000	\$ 3,550

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

C. Road Equipment - Backhoe

On September 25, 2003, the Lawrence County Fiscal Court entered into a financing agreement with the Kentucky Area Development District leasing trust program for road equipment. The principal amount of the agreement was \$70,000. The agreement requires two annual payments on October 20 and April 20 of each year for five years, starting April 20, 2004 to be paid in full October 20, 2008. The principal balance of the agreement was \$45,000 as of June 30, 2006. Payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 15,000	\$ 1,350
2008	15,000	855
2009	15,000	285
Totals	<u>\$ 45,000</u>	<u>\$ 2,490</u>

D. Community Center Building

On December 5, 2002, the Lawrence County Fiscal Court entered into a financing agreement with the Kentucky Area Development District leasing trust program for construction of a community center building. The principal amount of the agreement was \$1,004,000. The agreement requires two annual payments on November 20 and May 20 of each year for 20 years, starting November 20, 2003 to be paid in full November 20, 2022. The principal balance of the agreement was \$904,000 as of June 30, 2006. Payments for the remaining years are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 40,000	\$ 39,342
2008	44,000	38,116
2009	40,000	36,730
2010	40,000	35,330
2011	45,000	33,757
2012-2016	245,000	139,919
2017-2021	305,000	75,331
2022-2023	145,000	7,375
Totals	<u>\$ 904,000</u>	<u>\$ 405,900</u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

E. Sheriff's Vehicle – Ford Explorer

On September 18, 2002, the Lawrence County Fiscal Court entered into a financing agreement with WesBanco Bank, Inc for the purchase of a Ford Explorer for the Sheriff's Office. The principal amount of the agreement was \$32,630. The agreement requires one annual payment each year for five years, starting September 18, 2003 to be paid in full September 18, 2007. The principal balance of the agreement was \$13,893 as of June 30, 2006. Payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 6,809	\$ 624
2008	<u>7,084</u>	<u>320</u>
Totals	<u>\$ 13,893</u>	<u>\$ 944</u>

F. Sheriff's Vehicle – Crown Victoria

On September 16, 2002, the Lawrence County Fiscal Court entered into a financing agreement with WesBanco Bank, Inc for the purchase of two Crown Victorias for the Sheriff's Office. The principal amount of the agreement was \$53,302. The agreement requires one annual payment each year for five years, starting September 16, 2003 to be paid in full September 16, 2007. The principal balance of the agreement was \$22,774 as of June 30, 2006. Payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 11,125	\$ 1,016
2008	<u>11,649</u>	<u>523</u>
Totals	<u>\$ 22,774</u>	<u>\$ 1,539</u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

G. General Obligation Bonds

On July 1, 1987, the Lawrence County Building Commission issued \$685,000 of bonds, payable semiannually on January 1 and July 1 of each year beginning January 1, 1988 and continuing for 20 years. The purpose of this bond issue was to finance construction of the Lawrence County Courthouse Annex. The principal outstanding as of June 30, 2006 was \$120,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 60,000	\$ 6,525
2008	60,000	2,175
Totals	<u>\$ 120,000</u>	<u>\$ 8,700</u>

H. Kentucky Infrastructure Authority Loan

On November 1, 1998, the Lawrence County Fiscal Court entered into an Assistance Agreement in the amount of \$868,219 with the Kentucky Infrastructure Authority for the construction of sewer lines. Terms of the agreement require principal and interest payments on June 1 and December 1 of each year. Principal and interest payments began on December 1, 2001, one year from the completion date of the original sewer project, and continue through 2023. During fiscal year 2002, the county received an extension on the project and secured an additional \$157,367 in funds. The payment dates and number of payments to satisfy this liability did not change. The amount of each payment changed to accommodate additional principal due. The principal outstanding as of June 30, 2006 was \$682,958. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2007	\$ 40,043	\$ 12,114
2008	40,767	11,390
2009	41,504	10,653
2010	42,254	9,902
2011	43,018	9,138
2012-2016	227,045	33,739
2017-2021	248,327	12,457
Totals	<u>\$ 682,958</u>	<u>\$ 99,393</u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Long-term Debt (Continued)

I. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 170,000	\$	\$ 50,000	\$ 120,000	\$ 60,000
Kentucky Infrastructure Authority Loan	722,290		39,332	682,958	40,043
Financing Obligations	<u>1,456,020</u>		<u>220,353</u>	<u>1,235,667</u>	<u>227,934</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 2,348,310</u>	<u>\$ 0</u>	<u>\$ 309,685</u>	<u>\$ 2,038,625</u>	<u>\$ 327,977</u>

Note 6. Industrial Revenue Bond

On March 1, 2000, Lawrence County, Kentucky issued a single bond (Series 2000 A) in the amount of \$3,000,000 to assist in the financing, acquisition, construction, equipping, and installation of an industrial building, which will be used as a power plant (the project). Pursuant to the bond indenture, Lawrence County sold the bond to Lawrence County Riverside Trust 2000. The single bond has a maturity of March 9, 2025, with a fixed interest rate of 7% per annum payable each December 30, commencing December 30, 2001. The entire principal is payable at the maturity of the bond.

On March 10, 2000, Lawrence County entered into a lease agreement with Gene A. Wilson and Pauletta M. Wilson (the lessees) in which the lessees promise to provide specified rents, which will be sufficient to offset the principal and interest of the bond in order to satisfy the interest and principal requirements of the bond. Under the terms of the lease, the lessees subleased the project to Lawrence County Riverside Trust 2000 (purchaser of the bond). Lawrence County Riverside Trust 2000 will be responsible for developing the project.

Industrial Revenue Bonds are not county debt because revenue from the project will be used to satisfy the bonds, and therefore, this bond will not be included in Lawrence County Fiscal Court's financial statements.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Employee Retirement System

The fiscal court elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On February 24, 2000, the Lawrence County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2006, Lawrence County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 10. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2004 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2004 and thereafter are recorded at actual historical cost.

Note 11. Related Party Transactions

Our audit procedures revealed the following related party transactions. A brother-in-law of the County Treasurer performed contract work for the county. This work included: 1) AOC building renovations \$9,800; 2) Chapman Park repairs \$4,129; and 3) Election poll repairs \$6,240. A total of \$20,169 was paid to this individual.

Note 12. Prior Period Adjustments

A. Prior period adjustments have been made to the Primary Government's Statement of Activities, Net Assets as follows:

Prior Period Net Asset Adjustments - Primary Government

June 30, 2005 Net Assets Balance - Governmental Funds	\$	18,140,370
Capital Asset Adjustments		9,801
Sheriff's Vehicle Financing Obligations Not Booked In The Prior Year		(54,020)
General Fund Voided Checks		3,095
Jail Fund Voided Checks		<u>1,527</u>
June 30, 2005 Adjusted Net Assets Balance - Governmental Funds	\$	<u><u>18,100,773</u></u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 12. Prior Period Adjustments (Continued)

B. Adjustments To Prior Year Cash Balances:

General Fund:

General Fund Cash Balance June 30, 2005	\$	512,789
General Fund Voided Checks		3,095
Adjusted General Fund Cash Balance at June 30, 2005	\$	<u>515,884</u>

Jail Fund:

Jail Fund Cash Balance June 30, 2005	\$	491
Jail Fund Voided Checks		1,527
Adjusted General Fund Cash Balance at June 30, 2005	\$	<u>2,018</u>

**LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
REQUIRED SUPPLEMENTARY INFORMATION – MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 881,075	\$ 1,003,371	\$ 963,587	\$ (39,784)
In Lieu Tax Payments	206,577	206,577	207,636	1,059
Excess Fees	15,705	19,083	9,948	(9,135)
Licenses and Permits	11,000	11,000	16,648	5,648
Intergovernmental Revenue	2,224,922	2,316,324	833,607	(1,482,717)
Charges for Services	1,000	1,000		(1,000)
Miscellaneous	191,734	231,815	389,543	157,728
Interest	1,600	1,600	1,073	(527)
Total Revenues	3,533,613	3,790,770	2,422,042	(1,368,728)
EXPENDITURES				
General Government	1,108,397	1,108,397	886,323	222,074
Protection to Persons and Property	107,191	107,191	102,029	5,162
General Health and Sanitation	181,934	181,934	146,504	35,430
Social Services	41,711	41,711	43,231	(1,520)
Recreation and Culture	315,100	315,100	220,750	94,350
Roads	391,500	391,500	194,685	196,815
Debt Service	232,574	232,574	628,229	(395,655)
Capital Projects	1,053,206	1,053,206	56,005	997,201
Administration	373,900	837,062	458,220	378,842
Total Expenditures	3,805,513	4,268,675	2,735,976	1,532,699
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(271,900)	(477,905)	(313,934)	163,971
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	150,000	150,000	404,500	254,500
Transfers To Other Funds	(168,384)	(184,884)	(362,512)	(177,628)
Total Other Financing Sources (Uses)	(18,384)	(34,884)	41,988	76,872
Net Changes in Fund Balance	(290,284)	(512,789)	(271,946)	240,843
Fund Balance - Beginning	290,284	512,789	515,884	3,095
Fund Balance - Ending	\$ 0	\$ 0	\$ 243,938	\$ 243,938

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,777,425	\$ 2,094,943	\$ 1,851,473	\$ (243,470)
Miscellaneous	6,500	16,108	16,604	496
Interest	1,000	1,444	1,884	440
Total Revenues	1,784,925	2,112,495	1,869,961	(242,534)
EXPENDITURES				
Roads	7,556	7,556	6,936	620
Road Facilities	1,441,243	1,441,243	1,376,528	64,715
Debt Service	131,035	131,035	131,035	
Administration	213,184	603,665	225,315	378,350
Total Expenditures	1,793,018	2,183,499	1,739,814	443,685
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(8,093)	(71,004)	130,147	201,151
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(140,000)	(140,000)
Total Other Financing Sources (Uses)			(140,000)	(140,000)
Net Changes in Fund Balance	(8,093)	(71,004)	(9,853)	61,151
Fund Balance - Beginning	8,093	71,004	71,004	
Fund Balance - Ending	\$ 0	\$ 0	\$ 61,151	\$ 61,151

LAWRENCE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 749,176	\$ 1,001,328	\$ 1,001,328	\$ 0
Interest	600	2,017	1,809	(208)
Total Revenues	<u>749,776</u>	<u>1,003,345</u>	<u>1,003,137</u>	<u>(208)</u>
EXPENDITURES				
General Government	66,624	66,624	59,252	7,372
General Health and Sanitation	2,000	2,000		2,000
Social Services	1,000	1,000	2,000	(1,000)
Recreation and Culture	898	898		898
Roads	358,568	358,568	613,185	(254,617)
Capital Projects	1,000	1,000		1,000
Administration	53,431	363,970		363,970
Total Expenditures	<u>483,521</u>	<u>794,060</u>	<u>674,437</u>	<u>119,623</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>266,255</u>	<u>209,285</u>	<u>328,700</u>	<u>119,415</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			49,500	49,500
Transfers To Other Funds	<u>(268,255)</u>	<u>(308,255)</u>	<u>(362,150)</u>	<u>(53,895)</u>
Total Other Financing Sources (Uses)	<u>(268,255)</u>	<u>(308,255)</u>	<u>(312,650)</u>	<u>(4,395)</u>
Net Changes in Fund Balances	(2,000)	(98,970)	16,050	115,020
Fund Balances - Beginning	<u>2,000</u>	<u>98,970</u>	<u>98,970</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 115,020</u>	<u>\$ 115,020</u>

LAWRENCE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LAWRENCE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

**LAWRENCE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

	Jail Fund	Community Development Block Grant Fund	Forestry Fund	Sewer Fund	E-911 Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,767	\$ 9,677	\$ 36,615	\$ 6,418	\$ 12,763
Total Assets	<u>\$ 1,767</u>	<u>\$ 9,677</u>	<u>\$ 36,615</u>	<u>\$ 6,418</u>	<u>\$ 12,763</u>
FUND BALANCES					
Reserved For:					
Encumbrances	\$ 1,584	\$	\$	\$ 2,217	\$ 330
Unreserved:					
Special Revenue Funds	<u>183</u>	<u>9,677</u>	<u>36,615</u>	<u>4,201</u>	<u>12,433</u>
Total Fund Balances	<u>\$ 1,767</u>	<u>\$ 9,677</u>	<u>\$ 36,615</u>	<u>\$ 6,418</u>	<u>\$ 12,763</u>

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

Public Properties Corporation Bond Fund	Total Non-Major Governmental Funds
<u>\$ 3</u>	<u>\$ 67,243</u>
<u><u>\$ 3</u></u>	<u><u>\$ 67,243</u></u>
\$	\$ 4,131
<u>3</u>	<u>63,112</u>
<u><u>\$ 3</u></u>	<u><u>\$ 67,243</u></u>

The accompanying notes are an integral part of the financial statements.

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LAWRENCE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

LAWRENCE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Jail Fund	Community Development Block Grant Fund	Forestry Fund	Sewer Fund
REVENUES				
Taxes	\$	\$	\$ 5,516	\$
Intergovernmental	91,204			
Charges For Services				47,713
Miscellaneous				
Interest	115	95	347	91
Total Revenues	<u>91,319</u>	<u>95</u>	<u>5,863</u>	<u>47,804</u>
EXPENDITURES				
Protection to Persons and Property	379,220		3,532	
Debt				53,582
Capital Projects				39,396
Administration				
Total Expenditures	<u>379,220</u>	<u></u>	<u>3,532</u>	<u>92,978</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(287,901)</u>	<u>95</u>	<u>2,331</u>	<u>(45,174)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	287,650			46,000
Total Other Financing Sources (Uses)	<u>287,650</u>	<u></u>	<u></u>	<u>46,000</u>
Net Change in Fund Balances	(251)	95	2,331	826
Fund Balances - Beginning	2,018	9,582	34,284	5,592
Fund Balances - Ending	<u>\$ 1,767</u>	<u>\$ 9,677</u>	<u>\$ 36,615</u>	<u>\$ 6,418</u>

The accompanying notes are an integral part of the financial statements.

LAWRENCE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006
(Continued)

E-911 Fund	Public Properties Corporation Bond Fund	Total Non-Major Governmental Funds
\$ 159,184	\$	\$ 164,700
58,182		149,386
		47,713
100		100
201	3	852
<u>217,667</u>	<u>3</u>	<u>362,751</u>
244,188		626,940
	60,512	114,094
		39,396
34,924		34,924
<u>279,112</u>	<u>60,512</u>	<u>815,354</u>
<u>(61,445)</u>	<u>(60,509)</u>	<u>(452,603)</u>
16,500	60,512	410,662
<u>16,500</u>	<u>60,512</u>	<u>410,662</u>
(44,945)	3	(41,941)
57,708		109,184
<u>\$ 12,763</u>	<u>\$ 3</u>	<u>\$ 67,243</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Phillip L. Carter, Former Lawrence County Judge/Executive
The Honorable David Compton, Lawrence County Judge/Executive
Members of the Lawrence County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lawrence County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 19, 2007. Lawrence County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lawrence County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lawrence County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- Grant Proceeds Totaling \$7,338 Were Diverted By The Former Emergency Management Director And Not Received By The County
- The County Should Assure That Insurance Coverage Is Adequate

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness.

- Grant Proceeds Totaling \$7,338 Were Diverted By The Former Emergency Management Director And Not Received By The County.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Lawrence County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

January 19, 2007

**LAWRENCE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2006

**LAWRENCE COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2006

REPORTABLE CONDITIONS:

Grant Proceeds Totaling \$7,338 Were Diverted By The Former Emergency Management Director And Not Received By The County

On May 6, 2003, the County Judge/Executive signed an agreement with the Commonwealth of Kentucky Division of Emergency Management to receive \$7,338 to be used for updating Lawrence County's emergency operations plan. In accordance with the grant agreement, on December 16, 2003, the Kentucky Division of Emergency Management issued a check payable to Lawrence County Emergency Management in the amount of \$7,338.

During this time period, state emergency management checks were mailed to the Area Manager for the Kentucky Division of Emergency Management. The manager then forwarded checks to the former Lawrence County Emergency Management Director (EM Director). It was policy at the time for the former EM Director to give all checks to the county treasurer to be deposited into the Lawrence County Fiscal Court's official bank accounts.

The \$7,338 check should have been deposited into the Lawrence County Fiscal Court's official bank accounts. However, the former EM Director diverted these funds. The former EM Director obtained a tax identification number and opened a checking account in the name of Lawrence County Emergency Management. On January 14, 2004, the former EM Director deposited the \$7,338 into the checking account. On the same day, the former EM Director withdrew the entire cash balance of the checking account (\$7,337.96) and closed the account. The county has no record of how the cash was expended.

On October 3, 2005, the Lawrence County Treasurer was contacted by a representative from the Kentucky Division of Emergency Management to determine if the county received this check and how the money was expended. The county treasurer found that the check was never received by the treasurer or deposited into the county's official bank accounts. Upon further investigation, the county treasurer found that the former EM Director endorsed the check. The county treasurer immediately notified the county judge/executive of the issue. The fiscal court has taken no action to resolve this diversion of funds.

Because the former EM Director was an agent of the fiscal court, the County Judge/Executive is responsible for ensuring that any grant money received through his office is properly recorded in the county's financial statements and spent appropriately. We recommend the county obtain documentation of how the former EM Director expended the cash. In addition, we recommend the Lawrence County Fiscal Court develop control procedures to assure that all county funds are deposited into official county bank accounts. The fiscal court should seek guidance from the County Attorney in this matter.

Former County Judge/Executive Phillip L. Carter's Response:

The check was not routed through the treasurer's office and I did not know we received a check for this amount. The EM Area 9 director told me the EM directors could spend the money any way they wanted to.

Current County Judge/Executive David L. Compton's Response:

I will present this matter to the county attorney during the next fiscal court meeting.

LAWRENCE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2006
(Continued)

REPORTABLE CONDITIONS: (Continued)

The County Should Assure That Insurance Coverage Is Adequate

The county should maintain adequate insurance coverage for all assets. A comparison of the county's capital asset listing to the insurance listing revealed some assets owned by the county which were not included on the county's insurance policy. Further, some assets were insured at a value less than the value on the capital asset listing. Assets not included on the county's insurance policy include, but may not be limited to, the Chapman Park building, the Health Department building, the Yatesville Beach building, the Horse Stables, and a bath house. Underinsured assets include, but may not be limited to, a concession stand, a modular conference center, the park manager's residence, the amphitheater, and the Lawrence County Community building.

It appears that procedures developed by the county are not working to assure that insurance policies are reviewed and updated, that all assets are covered by insurance, and that insurance coverage is adequate. Failure to follow established procedures has resulted in assets being omitted from the insurance policy and assets being underinsured. We recommend the county strengthen procedures related to periodic review of insurance policies to determine that insurance coverage is adequate.

Former County Judge/Executive Phillip L. Carter's Response:

Okay. I believe some of these buildings were on our insurance list.

Current County Judge/Executive David L. Compton's Response:

We will review the insurance policy and make the necessary adjustments. We have already begun this process.

PRIOR YEAR FINDINGS:

None.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

LAWRENCE COUNTY FISCAL COURT

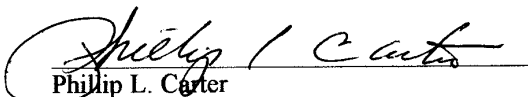
**For The Fiscal Year Ended
June 30, 2006**


Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
LAWRENCE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Lawrence County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Phillip L. Carter
Former County Judge/Executive


Sabrina Cantrell
County Treasurer

